

Tax Dependent Questions & Answers

Please note:

This information is not intended as tax advice but rather to alert employees of potential tax ramifications and IRS rules.

The State recommends all employees wishing to enroll dependents under a State-sponsored plan to consult with a qualified tax advisor.

1. How do I answer the “Tax Dependent?” question for my dependent?

- a. Click “Yes” if your dependent is a tax dependent, and can be claimed on your federal income tax return
- b. Click “No” if your dependent cannot be claimed on your federal income tax return
- c. For purposes of answering the question, your spouse is always considered your tax dependent.

2. What is a “Tax Dependent?”

- a. A tax dependent is someone you can claim on your federal income tax return.
- b. The tax dependent must meet either:
 - i. the IRS tests for Qualifying Child (QC) or
 - ii. the IRS tests for Qualifying Relative (QR) AND also meet the definition of dependent in Colorado Revised Statute (CRS) 10-16-104 and 104.3
- c. See [IRS Publication 501](#) and CRS 10-16-104 and 104.3 or consult your tax advisor for more information. Summaries of the IRS tests are below (see 7 and 8).

3. What is a “Non-Tax Dependent?”

- a. A non-tax dependent is someone you cannot claim on your federal income tax return, but could be eligible for State benefits under CRS 10-16-104 and 104.3 and you choose to cover that person.
- b. The differences arise because the State of Colorado has a different definition of dependents for State benefits compared with the IRS definitions for tax dependents.

4. What are the implications of choosing coverage for a “tax dependent” vs. a “non-tax dependent”

- a. If you choose medical or dental coverage for a “tax dependent” you will not be taxed on coverage for that tax dependent.
- b. If you choose medical or dental coverage for a “non-tax dependent”, you will be taxed on coverage for that non-tax dependent. The IRS requires that employers “impute” income to employees who choose to cover non-tax dependents.
 - i. See the schedule of imputed income for medical and dental coverage in the Reference Center to find your monthly imputed income amount.
 - ii. Your federal, state, and Medicare taxes will all increase. This is true whether you select the pre-tax or after-tax option for insurance deductions.

5. What if I make the incorrect choice?

- a. You can correct it by changing the tax status in the State’s online Benefits Administration System. Instructions on how to change the status are at <http://www.colorado.gov/dpa/dhr/benefits>. After making the change, contact your

agency's payroll officer and inform him/her of the change so your pay can be corrected.

6. What if I have a dependent that is not a tax dependent, and I select the pre-tax option for my insurance deductions?

- a. Because you cannot derive any tax benefit from your non-tax dependent, the portion of your payment that is for that dependent should not be a pre-tax deduction. Your paycheck will show a pre-tax deduction for the full premium, but you will not receive the full pre-tax benefit.
- b. You will be taxed both on the value of the insurance coverage for your non-tax dependent, and on the pre-tax portion of the premium you paid for your non-tax dependent.

7. What are the State's rules for insurance coverage of dependents?

- a. The State of Colorado, per CRS 24-16-104 and CRS 24-16-104.3 allows insurance coverage for dependents who may not meet the IRS QC or QR tests. This means that you are allowed to provide insurance for dependents that are not tax dependents per the IRS. The State's conditions for coverage are:
 - i. Age and Martial Status
 - 1. Child must be 24 or younger
 - 2. Child must be unmarried
 - ii. Member of Household/Support
 - 1. Child must have same legal residence as parent, or
 - 2. Child must be financially dependent on parent

8. What are the IRS' tests for a Qualifying Child?

- a. The IRS has 5 tests that must be met in order for the dependent to be treated as a QC. These tests are described in detail in [IRS Publication 501](#); the lists below should not be used as the sole determination of your dependent's tax status.
 - i. Relationship
 - 1. Child must be legally related to you
 - ii. Age (determined by age at END of calendar year)
 - 1. Child must be 18 or younger
 - 2. Or – Child is 19-23 and a full-time student
 - 3. Or – Child is permanently and totally disabled, regardless of age
 - iii. Residency
 - 1. Child must have lived with you for more than half of the year
 - a. There are exceptions for temporary absences, see [IRS Publication 501](#) for more information
 - iv. Support
 - 1. Child must NOT have provided more than half of his/her own support for the year
 - v. Special Test for Qualifying Child of More Than One Person
 - 1. To be used if child meets above tests for more than one person
 - 2. See [IRS Publication 501](#) for more information

9. What are the IRS' tests for a Qualifying Relative?

- a. The IRS has 4 tests that must be met in order for the dependent to be treated as a QR. These tests are described in detail in [IRS Publication 501](#); the lists below should not be used as the sole determination of your dependent's tax status.
 - i. Not a QC
 - 1. Dependent does not meet above QC tests
 - ii. Member of Household/Relationship
 - 1. Dependent must live with you all year as a member of your household
 - 2. Or – Dependent must be related in one of the ways listed in [IRS Publication 501](#), page 15 (“Relatives who do not have to live with you”)
 - iii. Gross Income
 - 1. Dependent's gross income for the year must be less than \$3,500
 - iv. Support
 - 1. You must provide more than half the dependent's total support for year
 - a. If dependent is supported by two or more people, see [IRS Publication 501](#) for information